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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997)

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Docket No. R97-1

DIRECT TESTIMONY
OF
KEITH CRAIN
ON BEHALF OF
PUBLISHING INTERVENORS

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**DIRECT TESTIMONY OF KEITH CRAIN
ON BEHALF OF PUBLISHING INTERVENORS**

1 My name is Keith Crain, and I am Chairman of Crain Communications
2 Inc. I am testifying on behalf of the American Business Press, the Coalition
3 of Religious Press Associations, Dow Jones & Company, Inc., the Magazine
4 Publishers of America, The McGraw-Hill Companies, Inc., the National
5 Newspaper Association and Time Warner.

6 Crain Communications is a publisher of consumer, trade and business
7 publications. It was founded in 1916 and today publishes thirty publications.
8 We publish twenty-seven publications in the United States and publish in six
9 offices in the U.S. We have additional offices in six other U.S. cities.

10 I have been Chairman of this family business since last May,
11 succeeding my late mother, who succeeded my father when he passed away.
12 Our company was founded by my father in 1916. I have worked at Crain
13 Communications since I got out of school and have had a wide variety of

1 positions with the company. I am publisher of a couple of our magazines
2 and, additionally, I am editorial director of several others.

3 I am not an expert on postal ratemaking, but I do know a bit about the
4 publishing industry, the impact of postal rates on our industry and the time
5 and money my company and other spend to reduce costs and assist the
6 Postal Service in delivering our publications on time.

7 Even though we at Crain and, I believe, the publishing industry in
8 general are pleased that the Postal Service has proposed only a modest
9 increase for periodicals, we are gravely concerned with the Postal Service's
10 claim that the costs of handling periodicals continue to increase rapidly and
11 with the new methods of assigning costs to classes and subclasses
12 introduced in this docket. This persistent pattern of increasing costs to
13 handle periodicals is enormously frustrating to me as a publisher and a
14 businessman, and to the publishing industry, and that frustration is
15 compounded by the Postal Service's struthious response to years of efforts
16 by the publishing industry to seek the causes of the alleged increases.

17 The sponsors of this testimony are so concerned about the Postal
18 Service's failure to investigate seriously the reasons for periodical costs
19 having increased by, it claims, 87% in ten years (as explained by my
20 colleague Chris Little) that they have decided to put aside, at least for now,
21 their parochial concerns with rate design issues to focus on what we truly

1 believe to be a threat to the well-being of our industry. Again, that threat is
2 the Postal Service's seeming inability to control the costs of handling
3 periodicals and its consistent refusal even to recognize that there is a
4 problem, much less to do anything about it.

5 The Postal Service often claims that it wants to be free to operate
6 "more like a business." Any business, in my experience, would leave no
7 stone unturned in an effort to find and cure the problems leading to
8 inexplicable costs increases, yet the Postal Service appears content merely
9 to pass them on.

10 As I've already stated, this is not a new problem, and it is not a
11 problem of which the Postal Service is unaware. I will leave to Rita Cohen,
12 appearing for the Magazine Publishers of America, the task of providing the
13 year-by-year, case-by-case history and detail of the industry's efforts to
14 identify and cure the problem, efforts that always seem to run into the
15 marble walls of L'Enfant Plaza. However, I can recount first hand a
16 frustrating meeting I attended at Postal headquarters on June 4 of this year.

17 The meeting was attended by Gordon Hughes, president of ABP and
18 me, in my role as chairman of ABP's Legal Committee, as well as by Don
19 Kummerfeld, president of MPA, Rick Smith, the president of Newsweek and
20 chairman of MPA's board, Jim O'Brien of Time Warner and Dan Austin of Dow
21 Jones from the publishing industry. The Postal Service was represented by

1 Postmaster General Marvin Runyon, Deputy Postmaster General Mike
2 Coughlin and Senior Vice President Alan Kane. The industry representatives
3 expressed their growing dismay and frustration at the decline in flat handling
4 productivity and the resulting disproportionate rate and cost increases for
5 periodical mailers. We explained that the cost trend should be downward,
6 not upward, in light of the industry's growing investment of time and money
7 in mail preparation and drop shipping activities, and we presented again our
8 concern that "automation refugees" may contribute significantly to the
9 paradoxical cost increases.

10 As always, the Postal Service response was a general denial that there
11 is a cost incurrence or measurement problem, and a specific denial that
12 there is an "automation refugee" problem. The Postal Service did agree to a
13 joint study with industry to determine how flat processing costs can be
14 reduced, but as Ms. Cohen explains, there has yet to be agreement on the
15 scope or methodology of the study.

16 One of the most troubling aspects of these continuing cost increases is
17 that they hit us at the same time as we are spending more and more money
18 to prepare our mail and to drop ship it. We perform these activities both to
19 improve service and to reduce our postal costs, as well as those of the Postal
20 Service. Yet it seems that no matter how much we "workshare," the Postal

1 Service's "share" of the work increases, and despite our efforts, service is
2 bad, to put it charitably.

3 Crain Communications is not a huge company, but it is a sophisticated
4 one that expends considerable resources to minimize its postage costs (and
5 maximize the level of delivery service it obtains). I can certainly speak
6 directly for Crain Communications and, I believe, for nearly all players in this
7 industry when I say that publishers are doing about all they can to reduce
8 their own costs and the Postal Service's costs. Joyce McGarvy, our
9 company's distribution director, is supplying testimony concerning our
10 operations and the service we obtain. I will just summarize it here.

11 We publish both weekly periodicals, such as Auto Week, Automotive
12 News and Advertising Age, as well as fortnightly and monthly periodicals,
13 such as Modern Physician and Business Marketing. We presort as
14 extensively as we can, and we barcode everything that the Postal Service is
15 able to automate (but because we publish a number of tabloid-sized
16 periodicals, we are unable to obtain automation discounts until the Postal
17 Service adds barcode readers to the soon-to-be-deployed FSM 1000s).
18 Crain spent more than \$3,500,000 last year drop shipping our publications,
19 including substantial expenditures on air freight. We know that many other
20 publishers do the same.

1 That is why the skyrocketing periodical handling costs are so troubling
2 to us. We are stymied, because there is nothing left for us to do. We must
3 look to the Postal Service to constrain costs.

4 I recognize that the Postal Rate Commission cannot simply order the
5 Postal Service to slow the supposedly rising costs of handling periodicals.
6 But what the Commission can do here is to recognize the problem of rising
7 costs, both those we incur ourselves and those of the Postal Service, and
8 give substantial weight to the "educational, cultural, scientific and
9 informational" value of periodicals when considering the appropriate
10 Periodicals rates. It should also consider that most publications experienced
11 rate increases just last year, as a result of "classification reform."

12 To its credit, the Postal Service appears to have considered these
13 matters in proposing rates, especially when it comes to the markup for
14 periodicals. I understand that it has proposed a "coverage" of 107% for
15 regular rate periodicals, lower than in prior cases. While we agree that,
16 under the circumstances (including the fairly large postal rate increase that
17 Crain and most other publishers experienced in 1996), a relatively low
18 markup is appropriate, we also believe that the rates proposed actually
19 produce a substantially higher markup. I will of course defer to the cost and
20 rate experts appearing for periodical intervenors to explain why and how the
21 Postal Service has in our view overstated the costs of handling periodicals.

1 ABP endorses the testimony on these issues of Witnesses Cohen, Shew and
2 Stralberg, as well as the testimony of Michael Hehir. My message is that
3 irrespective of whether or not the Commission is 100% convinced that this
4 overstatement exists, and whether or not it feels that there is sufficient
5 information to permit it to redo all of the numbers, it nevertheless should
6 give weight to this very real problem when considering the proposed rates.

7 Clearly, the publishing industry is no different from any other. It does
8 not like to see any of its costs increase. Nevertheless, I believe that we can
9 live with the proposed rates, although I am not certain that we can live with
10 the long-term implication of rising Postal Service costs and its new method
11 of assigning them. I urge the Commission to recommend rates no higher
12 than the Periodical rates proposed by the Postal Service while, at the same
13 time, refraining from approving the new costing methods that are improper
14 and that, if followed in future cases, will lead to devastating rate increases
15 for periodicals.

16 Thank you for the opportunity to appear.